

M e m o r a n d u m

To: Panel Members Date: January 26, 2007

From: Dolores Kendrick, Manager Analyst: N. Weingart

Subject: One-Step Agreement for **FRESENIUS MEDICAL CARE NORTH AMERICA**

CONTRACTOR:

- Training Project Profile: Retraining: Companies W/Out-Of-State Competition
SET Workers Earning At Least The State Average
Hourly Wage
- Legislative Priorities: SET Workers In High Unemployment Areas
Moving To A High Performance Workplace
Promotion Of California's Manufacturing Workforce
- Type of Industry: Manufacturing Medical Services
- Repeat Contractor: No
- Contractor's Full-Time Employees
 - *Worldwide:* 47,521
 - *In California:* 3,165
- ETP Trainees Represented by Union: No
- Name and Local Number of Union Representing ETP Trainees: N/A

CONTRACT:

- Program Costs: \$542,715
- Substantial Contribution: \$0
- Total ETP Funding: \$542,715
- Total In-kind Contribution: \$2,517,592
 - *Trainee Wages Paid During Training:* \$990,696
 - *Other Contributions:* \$1,526,896
- Reimbursement Method: Fixed-Fee
- County(ies) Served: Statewide

INTRODUCTION

Fresenius Medical Care North America manufactures and distributes kidney dialysis equipment and products, and operates clinics providing kidney dialysis treatment. The manufacturing plant qualifies for standard ETP funding as a company facing out-of-state competition under Title 22 California Code of Regulations (CCR), Section 4416(i)(1). The medical clinics qualify for SET funding under Title 22 CCR, Section 4409 (a) for frontline workers who earn at least the State average hourly wage, and Section 4409(b) for trainees in high unemployment areas. Fresenius proposes to retrain its workforce in the skills necessary to transition to a high performance workplace.

MEETING ETP GOALS AND OBJECTIVES

Fresenius Medical Care North America proposes training that will further the following ETP goals and objectives:

- 1) Foster retention of high wage, high skilled jobs in manufacturing that are threatened by out-of-state competition.
- 2) Promote training for workers in the healthcare industry.
- 3) Support companies moving to a high performance workplace.
- 4) Support training for workers in areas of high unemployment in California.
- 5) Encourage industry-based investment in human resources development that promotes California industry through productivity and product quality enhancements.

TRAINING PLAN TABLE

Grp/Trainee Type	Types of Training	No. Retain	No. Class/Lab Videocnf. Hrs.	No. CBT Hrs.	Cost Per Trainee	Hourly Wage After 90 Days
Retrainee Job 1 (Mfg)	MENU: Business Skills Computer Skills Continuous Improvement Manufacturing Skills	27	32-200	0	\$1,620 average	*\$13.51 - \$64.93
Retrainee SET High Wage Job 2 (Clinical)	MENU: Business Skills Literacy Skills	235	73-97	0	\$1,140 average	*\$22.51 - \$42.96
Retrainee SET HUA Job 3 (Clinical)	MENU: Business Skills Literacy Skills	195	73-97	0	\$1,185 average	*12.38 - \$42.96

Wages After 90-Day Retention

Occupation

Manufacturing Staff

Manager
Supervisor
Technician
Quality Systems Staff
Information Systems Staff
R&D Staff
Engineer
Assembler
Administration Staff

Clinical Staff

Nursing Staff
Renal Dietician
Equipment Technician
Social Services Staff
Field Operations Staff
Administrative Staff

TRAINING PLAN TABLE: (continued)

<p><u>Health Benefits Used To Meet ETP Minimum Wage</u></p> <p>* Health benefits of at least \$2.42 per hour for manufacturing staff and \$1.35 per hour for clinical staff may be added to a trainee's wages to meet the standard ETP minimum hourly rate of \$13.51 for Los Angeles, Orange, Alameda, Contra Costa, Marin, San Francisco, San Mateo, Santa Clara, and Santa Cruz Counties; \$13.61 for Sacramento County; \$12.89 for San Diego County; \$13.12 for Ventura County; and \$12.38 for all other counties. These same health benefits may be used to meet the ETP minimum SET frontline high wage hourly rate of \$22.51 statewide.</p>	<p><u>Turnover Rate</u></p> <p>11%</p>	<p><u>% Of Mgrs & Supervisors To Be Trained:</u></p> <p>2%</p>
<p><u>Other Employee Benefits</u></p> <p>Holiday, Vacation, Sick Time, Paid Time Off/Extended Sick Leave, Flexible Reimbursement Accounts, 401k Savings Plan, and Disability Income Plan</p>		

COMMENTS / ISSUES

➤ *Frontline Workers*

Ninety-eight percent of the participants in this project meet the Panel definition of frontline workers under Title 22 CCR, Section 4400(ee). Training at the manufacturing plant will include 9 managers and supervisors, or 2 percent of the total trainee population in this Agreement.

➤ *Production During Training*

The proposed Contractor agrees that during ETP-funded training hours, trainees will not produce products or provide services which will ultimately be sold.

➤ *High Training Costs*

This Agreement provides training that will potentially be reimbursed at more than twice the ETP average cost per trainee (\$2,492). Five trainees at the manufacturing plant in Walnut are scheduled to receive 200 hours of Six Sigma and facilitator training (200 hours x \$18/hour = \$3,600) to become specialists and lead the plant in its efforts to become a high performance workplace by training the remainder of the workers. These trainees are at the manager level earning from \$24.48 to \$64.93 per hour.

RECOMMENDATION

Staff recommends that the Panel approve this Agreement if funding is available and the project meets the Panel priorities, based on the company's stated need to develop and manufacture state-of-the-art medical equipment to combat kidney disease, and provide optimum services to those afflicted with disease to improve their quality of life.

NARRATIVE

Fresenius Medical Care North America provides products and services for individuals with chronic kidney failure, a condition that affects more than 1,400,000 people worldwide according to the company spokesperson. Fresenius' principal business segments are research and development, manufacturing; distributing products and equipment for dialysis treatment; clinical laboratory testing services; and kidney dialysis services. Company roots go back to the 18th century when the Fresenius family took over the Hirsch Pharmacy that was founded in 1462 in Frankfurt, Germany. Fresenius Medical Care began business in North America with 30 employees in Concord, California in 1985 under the name Seratronics, Inc. as a subsidiary of Fresenius AG of Germany.

Today, the manufacturing plants produce and distribute a comprehensive line of dialysis products such as hemodialysis machines, dialyzers, peritoneal dialysis systems, and disposable products. Fresenius also provides in-patient dialysis services, therapeutic apheresis, and hemoperfusion dialysis treatment through its network of approximately 2,085 dialysis clinics in North America, Europe, Latin America, and Asia-Pacific. There are more than 1,500 outpatient

NARRATIVE: (continued)

dialysis clinics in the U.S. alone. Other clinical services include nutritional counseling, social worker support, home training programs, anemia management, and patient travel service.

As Fresenius provides products and services to customers and patients worldwide, it faces global competition from businesses such as Baxter and Gambro, Inc. As competition increases and the number of patients grow each year, Fresenius must remain on the cutting edge by continually striving to develop innovative technologies and high quality products to meet existing and future demands. This goal can be met by continually moving all facets of the business into a high performance workplace. In manufacturing, Fresenius must improve efficiency and increase productivity to drive down the cost of dialysis equipment, and improve technology to develop more highly advanced machines.

As the clinical business continues to grow, Fresenius must standardize and optimize patient care through innovative and efficient programs, new technology, and superior customer service. And, due to the shortage of trained nursing and medical workers, Fresenius must constantly recruit staff and provide much of the training that is not routinely offered in schools. Accordingly, in the spring of 2005, Fresenius introduced eCube, a new information system, it is the first step to a paperless system where manual tasks are replaced by electronic processes. This new computer system will record individual treatment data, analyze treatment quality, have improved audit functions, and expedite billing. The system will also provide data analysis to help optimize individual dialysis treatment.

In order to initiate and utilize new technologies and improve upon current ones, Fresenius wishes to implement the following training:

Manufacturing Skills will include courses in medical design, equipment operation, the production process stream, quality assessment, and supplier management.

Continuous Improvement courses, also for manufacturing staff, will be given in Six Sigma, Lean Manufacturing, facilitator and leadership skills. These courses, together with manufacturing skills, will help workers improve processes and productivity, solve problems, and become in-house trainers.

Computer Skills courses leading to Novell and Microsoft certifications will give the IT (information technology) staff at the manufacturing plant the skills they need to operate and maintain more sophisticated equipment and programs.

Business Skills for both manufacturing and clinical staff will include courses in improved communications, sales & marketing, customer service, and utilization of the eCube system. Training will teach employees to communicate more effectively with patients and other employees. The eCube system will improve overall clinical performance through better patient tracking, reporting, and disease management to improve the quality of life. Several of these courses are part of the company's UltraCare initiative designed to provide employees with the skills they need to generate better outcomes and more satisfied patients.

NARRATIVE: (continued)

Literacy Skills training in Vocational English as a Second Language (VESL) will provide clinical staff, especially nursing staff, with the language skills they need to communicate with patients and co-workers, as well as advance their career into leadership and management roles.

Commitment to Training

ETP funding will not displace employer's resources for training.

In the past, Fresenius has provided new hire orientation, manufacturing skills, safety training, leadership, and clinical training when upgrades in dialysis treatment occur. Employees also receive regulatory training and professional development courses. Fresenius offers a variety of computer-based, web-based, and video training courses. Training occurs in the clinics and the manufacturing plants, at company headquarters in Massachusetts, at centralized offsite locations, and at local colleges.

Fresenius is now trying to deliver new and more advanced training to its employees to ensure the best services and products for their patients. ETP funding will allow the company to reach a broader population more quickly and increase the depth of training, thereby improving both manufacturing capabilities and clinical patient care more rapidly to keep up with growing demand.

During the ETP program, the company will train over 1,000 manufacturing and clinical staff at its own expense. After ETP training has ended, Fresenius is committed to provide ongoing training in both business sectors to stay abreast of new medical technology, improve equipment and products, and further enhance patient care techniques.

SUBCONTRACTORS:

Ernst and Young (EY), San Francisco, California will provide administrative services to Fresenius in connection with this proposal. By contractual arrangement between EY and Fresenius, ETP funds will be used to pay for said services in the amount of a maximum of 13 percent of the payment earned.

THIRD PARTY SERVICES:

EY, San Francisco, California assisted Fresenius in developing this proposal for a flat fee in an amount not to exceed \$37,450.

FRESENIUS MEDICAL CARE NORTH AMERICA















MENU CURRICULUM

Class Lab Hours

32 - 200

Trainees may receive any of the following:

BUSINESS SKILLS

-  Business Communications
-  Sales Management
-  Marketing Medical Devices USA
-  Managing Multiple Tasks
-  Audit Reporting
-  Risk Analysis in a Regulated Environment
-  Critical Thinking Skills
-  Customer Service – Telephone Excellence
-  Customer Service Guide Map II
-  Home Therapies
-  Nurse Physician Communication
-  Chairside Systems
-  Clinical Systems
-  Financial Systems








LITERACY SKILLS

Vocational English as a Second Language (VESL)*

- Job specific words and phrases
- English writing and communication skills
- Equipment operation language
- Two way communication between patient and employees

* Total VESL training hours cannot exceed 45% of a trainee's job-specific training hours.

CONTINUOUS IMPROVEMENT

-  Six Sigma
-  Six Sigma Green Belt
-  Six Sigma IMPAQ Leader
-  Lean Leader Certification (Six Sigma)
-  Facilitator Training
-  Leadership Training
-  Investment in Excellence

FRESENIUS MEDICAL CARE NORTH AMERICA

MENU CURRICULUM (continued)

MANUFACTURING SKILLS

- + Medical Design & Manufacturing
- + Moderate Wire, Advanced Circuit I & II:
- + Motor Controls
- + QS (Quality System) Inspection Techniques
- + Solidworks
- + Lotus/Domino R6 Administrator Client
- + R&D Kidney Disease Symposium
- + Flow Works Software
- + EMC (Electromagnetic Compatibility) Design: Practical for Engineers
- + Embedded Systems
- + Change Control Processes
- + Quality Assessment
- + Production Process Stream
- + Supplier Management Procedure
- + Electronic Information Security Awareness

COMPUTER SKILLS

- + Novell Certified Software Engineer
- + Microsoft Certified Software Engineer

Comment: The parties agree that the training identified in this Curriculum may be revised from time-to-time during the term of this Agreement at the request of Contractor and with the prior written approval of ETP. (See also Section 12 in this Agreement.)